New capital sparks consolidation

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industry. As a result, banks and other lenders—often in the midst of coping with defaulted loans—stopped loaning the industry money. Everybody just withdrew from the market.

"There was a vacuum of financing for commercial real estate in general, but hotels were the most unfavored class of all," said James R. Butler Jr., whose law firm of Jeffer, Mangels, Butler & Marmoro recently held its sixth annual Hotel Conference. "You had essentially a complete vacuum of hotel financing from 1990 forward."

Into that vacuum leaped Wall Street, which had been working on bringing public capital to an industry who in the past had relied on private-sector investors like banks, pension funds and insurance companies to supply its capital.

"The commercial mortgage [market] is huge and has been private for the last century," said Jerrold Barag, executive v.p. of Irvine, Calif.-based Equitable Real Estate, in a post-conference interview. "Wall Street has been trying for at least the last 10 years to come up with a format . . . so they could provide money to the commercial mortgage market."

Securitization method

One of the chief new public investment vehicles has been securitization, a method in which Wall Street investment firms make loans, then sell a pool of the resulting mortgages—usually worth $100 million or more—to investors.

Companies such as Nomura Asset Capital Corp. and Lehman Brothers have plunged into this realm of financing, now made possible because of "improving economics of the industry and the continuing acceptance of hotels as acceptable collateral," said Jerome Ellis, v.p., real estate lending at OCWEN Financial Corp. in West Palm Beach.

This securitization process has created "a new level of liquidity added by a whole class of investors who weren't there before," Barag said.

Securitization is not the only recently emerging source of public funds, however. Hotel companies are increasingly turning to the stock market. Real estate investment trusts (REITs) like Patriot American Hospitality and FelCor, which are publicly traded, are aggressively entering the marketplace, Ellis said. And corporate hotel companies are increasingly turning to public offerings, which also allows them to access corporate bond markets.

The new availability of capital is also likely to produce consolidation.

"The growth of publicly listed hotel companies in the last three years has blossomed," Turner said. "As these newly minted hotel companies mature, they're beginning to finance themselves the way corporate America finances itself."

Furthermore, even on the private side, capital equity funds like The Tiger Fund and Apollo Real Estate Investors have also increased their investment in hotels.

The resultant flood of available capital is helping to revitalize the hotel industry, Butler said in a post-conference interview.

"Money is now available for rehabilitation and upkeep in a way it wasn't before," he said. Moreover, the increase in capital supply means financing is increasingly available at better terms and pricing, making financing even more efficient and effective, Turner said. While new construction is just beginning to creep back, much of the newly available capital is being used to acquire, at a healthy discount, properties left over from the booming 1980s, Barag said. This turnover has contributed greatly to industry viability, since buying a property for 15 percent or 25 percent of what it would cost to rebuild often makes that hotel newly profitable.

Possible consolidation

The new availability of capital is also likely to produce consolidation. Larger companies, for whom capital is cheaper, are likely to begin buying smaller hotel companies. For example, in the limited-service segment, in which some analysts believe certain markets are overbuilt, the larger, healthier companies are likely to pounce on those that are struggling.

In the luxury segment, where demand is healthy and there is little increase in supply, profitability is likely to increase, Turner said. Larger companies might start buying up smaller companies and independents.

"I think you're going to see both commercial bank lenders and equity investors recognize the supply-and-demand fundamentals for the luxury end of the business are very very positive, and you'll see the better of the top-tier operators, like Four Seasons and Fairmont, benefit from that recognition," he said. "The fundamentals of the luxury end of the business are so strong, the financial markets will sit up and take notice. I think the capital for the luxury end of the business will become more and more available, and the larger companies thus will get larger." H&MM

Omni Asia-Pacific redefines role

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China and the Asia-Pacific region, particularly countries that have demonstrated developing infrastructures and growing economies.

"By the year 2000," he said, "it is expected that at least a total of 15 hotels throughout China and in other major gateway cities and leading secondary cities throughout Asia will be managed by Marco Polo Hotels."

Currently, the group manages six hotels: The Hongkong Hotel, The Marco Polo and The Prince, all in Hong Kong; The Marco Polo in Singapore; Omni Saigon Hotel in Ho Chi Minh City, Vietnam; and the Omni Batavia Hotel in Jakarta, Indonesia.

The group has spent $50 million upgrading facilities on a number of properties, and the refurbishment plan of other properties will take place over the next 18 months.

More under development

A seventh hotel, The Marco Polo, Xiamen, will open in the late 1996. There are also Marco Polo Hotels under development in Jakarta and Bangkok.

"The group will continue to put considerable focus on the China market over the coming year, and discussions are well-advanced with hotel developers in Shanghai, Beijing and Tianjin," Kalyk said.

Although the Omni properties in North America are no longer part of the group, a marketing agreement will be put into place to cross-market each other's hotels. This includes listings in all promotional materials produced by the two groups, and in reservation services. This agreement, the company said, will be further enhanced over the next two years. H&MM

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▲ The Best Western Jamaica Bay Inn, Marina del Ray, Calif., received the Best Western Chairman's Award for outstanding quality standards, receiving a perfect inspection score.

▲ Libby Pataki, first lady of New York, recently presented the Rocking Horse Ranch in Highland, N.Y., with a "Why I Love New York" award, naming the resort as one of 12 of the best values in family getaways. H&MM